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USAID/VIETNAM SUPPORT FOR TRADE ACCELERATION PLUS (STAR PLUS)

**REPORT ON TECHNICAL ASSISTANCE ON FISCAL TRANSPARENCY
(MAY–AUGUST 2013)**

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(MAY–AUGUST 2013)**

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I. EXECUTIVE SUMMARY

The USAID/Vietnam Support for Trade Acceleration Plus (STAR Plus) project received additional funding from USAID of US\$500,000 to support fiscal transparency in Vietnam in the last stage of the project, from May–August 2013. Though the time window was short, the Vietnamese counterparts and USAID moved quickly to develop a focused technical assistance program on fiscal transparency. This was possible thanks to the project’s good relationship with the National Assembly (NA), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), and State Audit Agency as well as the project’s good understanding of the Government of Vietnam’s current fiscal reform priorities.

The direct beneficiaries of the technical assistance program were 1) the staff and members of the Committee on Financial and Budgetary Affairs (CFBA); and 2) policy makers, researchers, and trainers at the MPI, MOF, and State Audit of Vietnam (SAV). State officials from line ministries and provinces, university faculty, and nongovernmental organizations (NGOs) also participated and benefited from the technical assistance program.

The most important immediate result of the technical assistance was the changes in Law on the State Budget adopted by the NA. The revision is to be adopted in 2014. USAID STAR Plus provided line-by-line comments and a presentation on the Draft Budget Law with recommendations to make it more compatible with international best practices. The Law contains many important reforms to improve fiscal transparency and budgeting in Vietnam. These changes include:

- Enhancing fiscal transparency through the publication of reports and a clear fiscal calendar;
- Moving toward performance-based budgeting;
- Strengthening budgetary oversight by the NA and State Audit of Vietnam;
- Enhancing fiscal discipline at the local level;
- Introducing medium term fiscal and expenditure frameworks; and
- Improving revenue forecasts.

USAID STAR Plus provided training and capacity building support to the CFBA, MPI, MOF, and SAV on fiscal transparency and fiscal reforms. For example, the MPI’s Academy for Policy and Development—a training and research institution on investment and public policy—has incorporated content from the materials provided in its USAID/STAR Plus training in a curricular for students and government officials. Other USAID/STAR Plus training participants, including CFBA members and staff, also learned a great deal about fiscal transparency and received the Citizen Budget Guide prepared by the project. Since then, the CFBA and other donors have used this guide in several training programs as a reference material for local elected officials.

Strengthening fiscal transparency and reform is critical for Vietnam. Improvements will help the country use its public resources more effectively and efficiently to build the social and physical infrastructure much needed for the next wave of development, strengthen oversight and accountability, and reduce rent-seeking opportunities. Future technical assistance should continue to support the adoption of the State Budget Law and capacity building for agencies in charge of implementation. Support should be given to

strengthen the links among NGOs, think tanks, and policy makers to reinforce fiscal transparency at the local level where most resources are deployed.

II: INTRODUCTION AND BACKGROUND

With a gross domestic product (GDP) per capita of US\$1,375, Vietnam is categorized as a poor country in Southeast Asia. But in terms of revenue and expenditure shares of GDP, it has the largest government, which stood at 27 percent and 31 percent of GDP in 2011, respectively¹. Not long ago, Vinashin—a state-owned shipbuilder—shocked the nation with its collapse after having amassed and defaulted on a bad debt of US\$4 billion, or close to 4 percent of GDP. This one example shows how important fiscal transparency is to the future of Vietnam—to ensure that public resources are used effectively and efficiently to benefit the country and its people rather than becoming rent-seeking opportunities for a few.

Table 1 below shows that public investment is an important source of investment, accounting for close to 40 percent of overall investment. However, public investment has been identified as one of the most important development challenges for Vietnam going forward because of its inefficiency and ineffectiveness², which are partly the result of a lack of transparency and accountability in the use of public resources.

TABLE 1: PUBLIC INVESTMENT COMPOSITION

	2005	2006	2007	2008	2009	2010	2011	2012
Overall investment (% of GDP)								
Public investment/Overall investment	47.1%	45.7%	37.2%	33.9%	40.6%	38.1%	38.9%	37.8%
of which								
Budgetary investment	54.4%	54.1%	54.2%	61.8%	64.3%	44.8%	52.1%	54.8%
State Credit	22.3%	14.5%	15.4%	13.5%	14.1%	36.6%	33.4%	45.2%
State-Owned Enterprises	23.3%	31.4%	30.4%	24.7%	21.6%	18.6%	14.5%	

Source: General Statistics Office of Vietnam

The lack of transparency, oversight, and accountability in public investment has led to an extremely high cost for investment projects, which are often not effective. This helps explain why the huge public investment program on infrastructure has not resulted in any significant improvement in infrastructure. A recent study by the Fulbright Economic Teaching Program in Ho Chi Minh City found that the unit cost per kilometer of a four-lane highway in Vietnam is about three times of that in the United States.³ Due to the lack of transparency, oversight, and accountability, budget overruns in public investment projects has been increasing, as shown in Figure 1 below. In 2010, budget overrun of all public investment projects

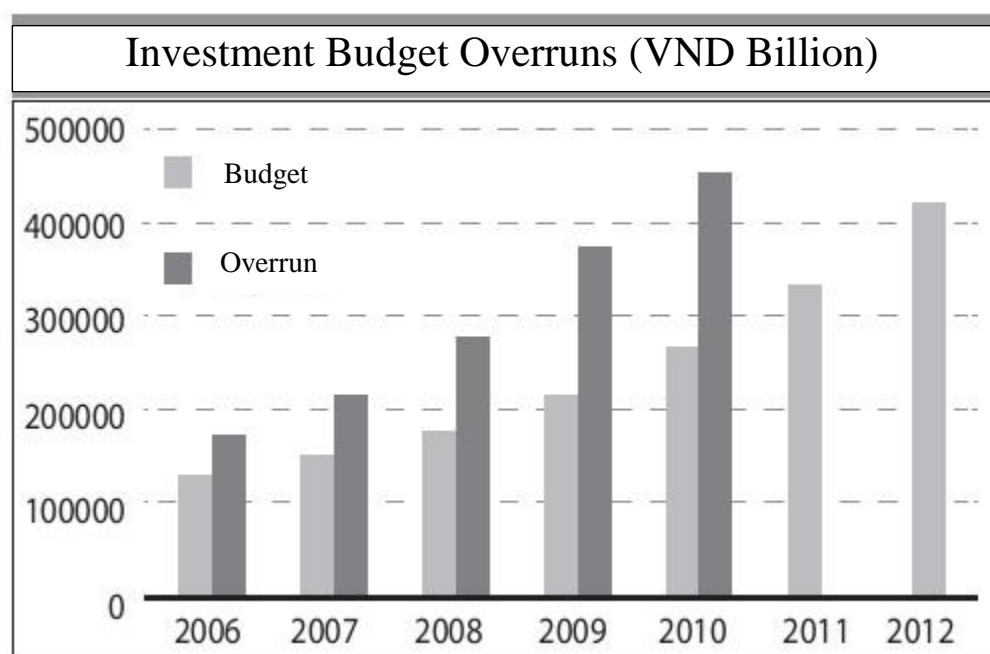
¹ Data derived from Government Statistic Office at www.gso.gov.vn (2011 VND/USD exchange rate was VND20, 490 – ADB).

² Anh Quan, "Vietnam's public investment 'Poor family wastes'", October, 18, 2011, *Vietnam Economic Times*.

³ Vu Thanh Tu Anh, *Management and decentralization of public investment: Vietnam's current status and international experience*, Page 12, Fulbright Economic Teaching Program.

was close to 70 percent of the budget.⁴ Furthermore, these figures do not include a significant amount of off-budget spending.

FIGURE 1: PUBLIC INVESTMENT AND BUDGET OVERRUN



Source: MOF (taken from article in footnote 2)

The Open Budget Partnership rated Vietnam’s fiscal transparency at 19, out of a possible 100 points. This puts Vietnam in the bottom group of “scant” countries. As shown in that ranking, the lack of fiscal transparency and accountability has cost Vietnam and Vietnamese enormously. In fiscal year 2013, Vietnam failed to reach its revenue target and its budget deficit is reported to be as high as 5.3 percent of GDP—much higher than the ceiling of 4.8 percent set by the National Assembly.⁵ A recent policy note manuscript of the World Bank and IMF noted that,

Vietnam has come a long way in improving fiscal transparency; a base has been established which can be further enhanced at relatively little cost and with potentially big gains. Improved public availability of fiscal information can deliver important macroeconomic gains, better service delivery, and stronger institutions.⁶

This project aimed to support Vietnam to improve its fiscal transparency by supporting the revision of the budget law and developing capacity on fiscal and economic analysis at the CFBA, in government agencies, and among key players. The objective was to enable Vietnam to follow international best practices and address important challenges fiscal transparency and budgeting.

⁴ Nguyen Thi Hai Ha, “Real Issues in Budget Decentralization of Vietnam”, *Vietnam Financial Times*, May 2013.

⁵ Thanh Thanh Lan and Tien Dung, “Failure to meet the budget deficit target,” *VNexpress*, October 21, 2013.

⁶ Habib Rab and Bill Allan, “Making the connection: A policy note on fiscal transparency in Vietnam”, *Manuscript*, March 2012, World Bank, IMF.

III. KEY ACHIEVEMENT

REVISIONS TO THE BUDGET LAW

The most important outcome of the technical assistance was probably the extensive revision of the Law on the State Budget achieved in partnership with the NA. The revised Law will be formally adopted in 2014. USAID STAR Plus provided line-by-line comments and a presentation on the Draft Budget Law with recommendations to make it more compatible with international best practices. The Law contains many important reforms to improve fiscal transparency and budgeting in Vietnam. These changes include:

- Enhancing fiscal transparency through the publication of reports and a clear fiscal calendar;
- Moving toward performance-based budgeting;
- Strengthening budgetary oversight by the NA and State Audit of Vietnam;
- Enhancing fiscal disciplines at the local level;
- Introducing medium term fiscal and expenditure frameworks; and
- Improving revenue forecasts.

The revised law is scheduled to be adopted in early 2014. The following are the major outstanding issues:

- The role of the NA in budget approval. Should the NA focus only on allocating the central budget and leave the authorization of the local budget to the provincial elected bodies instead of continuing the current system whereby the NA approves both the central and local budget? The change has been proposed by the MOF, but the NA is worried about fiscal discipline and equality between provinces because only 13 provinces are self-sufficient.
- The division of power between the MOF and MPI in fiscal affairs. The MOF proposed to take over the capital expenditure allocation from MPI to address the current problem of lack of coordination between current and capital expenditures. MPI disagrees and wants to retain its power.
- The practices of carrying forward unspent expenditures of previous year and advances from budgets of the following years violate the principle of an annual fiscal year. Policy makers understand the issue, but it has become customary, so it is hard to eliminate.
- The presentation of budget does not yet conform to international best practices.

SITE VISITS TO PROVINCES TO OBSERVE IMPLEMENTATION OF BUDGET LAW

USAID STAR Plus supported the NA to conduct visits to several provinces to observe the implementation of the current Budget Law. These visits proved to be eye-opening for all the participants (the staff of the NA, MOF representatives, and the USAID STAR Plus team). We found that there are many bad practices at the local level. The most serious is the burden of long-term debts financed by contractors of public works that are several times the total revenues and not reported on the annual budgets but accounted for separately as “short-term account payables.” These include cases of hospitals

without medical equipment and bridges without access roads. These exemplify public investment that is not well targeted and coordinated.

It took these visits to reveal these shortcomings because information on public investment projects is difficult to come by for local policy makers, let alone local citizens. While Vietnam has a rather clear system of norms for current spending, capital spending seems problematic and far from optimal. Recently the SAV reported that this contractor debt is worth \$93 trillion, which is equivalent to US\$4.4 billion or 53 percent of the total capital spending for fiscal year 2013.

DEVELOPMENT OF THE CITIZEN BUDGET GUIDE

USAID STAR Plus supported the development of the first Citizen Budget Guide based on the published budget for 2013. This demonstration effort illustrated fiscal transparency can be achieved based on international best practices. The NA was interested in this work and we had a lively discussion on it while working with the CFBA on fiscal transparency. Once completed, the Citizen Budget Guide was submitted to the NA and has since been used as training material in several training programs supported by the NA and the United Nations Development Programme.

TRAINING ON FISCAL TRANSPARENCY

Through our various training sessions and workshops, we built the capacity and awareness for fiscal transparency among policymakers and lawmakers and researchers. The MPI, for example, now has a much better understanding of the importance of fiscal transparency, especially in public investment, and of the basic principles for conducting cost-benefit analyses. MPI's Academy for Policy and Development now includes our presentation and materials on fiscal transparency, cost-benefit analysis, and public debt management in its public finance courses for continuous training of policy makers and in programs for undergraduate and graduate students.

PRESENTATIONS TO THE MINISTRY OF FINANCE

The MOF is the best informed agency on fiscal transparency and budgeting. We shared our view on the issues with policy makers and researchers of the MOF and they agreed to support greater fiscal transparency in the revised Budget Law. We had a productive discussion with the MOF on revenue projection in which the Tax Department and Customs Department discussed the way they currently formulate their projects. While data deficiency is partly responsible for inaccurate projections of revenue, the large magnitude and bias toward underestimating revenue suggests that the real cause is the policy of rewarding institutions and individuals for exceeding their target.

WORK WITH THE STATE AUDIT OF VIETNAM

USAID STAR Plus worked to build the capacity of the SAV in fiscal transparency and public debt reporting and auditing. Dr. Jose Oyola, who has 20 years of experience with the U.S. Government Accountability Office and is the main author and trainer of The International Organization of Supreme Audit Institutions (INTOSAI) *Manual on Public Debt Audit*, provided an intensive four-day training session for more than 40 senior auditors of the SAV. The training was considered "very useful" for the SAV to conduct public debt. The INTOSAI *Manual on Public Debt Audit* was translated into Vietnamese as reference training material.

MODIFICATIONS TO THE ORGINIAL SCOPE

USAID STAR Plus did not conduct the analysis of the establishment of Congressional Budget Office-like budget unit within the National Assembly that was envisioned in the original plan. The Finance Committee advised against this and requested that we focus revisions to the Law on the State Budget instead. The public debt audit training was not envisaged under the original plan, but USAID STAR Plus responded to an urgent request from the MPI and the State Audit of Vietnam. These adjustments proved to be effective.

IV. PROGRAM PROGRESS

Building on the previous work of USAID STAR Plus with MPI and related counterparts in fiscal policy reform, USAID STAR Plus moved quickly to mobilize a strong team of international and local experts to carry out the program. In addition to the full-time staff at USAID STAR Plus (Dan Rathbun, Quang Phan, Lan Bui, and supporting staff) the team included:

- Mark Gallagher, Public Finance Expert (lead technical consultant);
- Jose Oyola, Public Audit Expert;
- Trinh Tien Dung, Local Public Finance and Governance Expert;
- Dang Ngoc Dung, Public Finance Expert; and
- Nguyen Ngoc Anh, Economist.

We conducted two missions for our team's international experts to come Vietnam to work with their counterparts during May, June, and July 2013. Dr. Gallagher came for both missions and Dr. Oyola came for the second mission.

USAID STAR Plus supported:

- Eleven training courses and workshops on fiscal transparency, budgeting, and budget law for 453 policymakers and researchers of the NA, the MPI, the MOF, line ministries, the Ho Chi Minh Academy for Political and Administrative Studies, several universities, and provinces;
- Field visits on budget law implementation to six provinces for 28 staff of the NA's CFBA (Hai Duong, Hai Phong, Dac Lac, Khanh Hoa, Da Nang, and Yen Bai);
- Development of a Citizen's Budget Guide for submission to the NA.

Table 2 below presents a list of all activities on fiscal transparency conducted by USAID STAR Plus during May–August 2013.

TABLE 2: LIST OF ACTIVITIES ON FISCAL TRANSPARENCY

Counterparts	Title	Type of Events	Starting Date	Ending Date	Place	Participants	Female
State Audit of Vietnam	Fiscal Transparency and Public Debt Auditing	Training	7/30/2013	8/2/2013	Hanoi	45	20
National Assembly	Technical discussion on detailed comment on budget law	Roundtable discussion	7/30/2013	7/30/2013	Hanoi	10	5
Academy for Policy and Development, MPI	Training of Trainers: Public Financial Management -Fiscal Transparency and Public Debt Management	Training of trainers	7/24/2013	7/26/2013	Quang Binh	55	24

Counterparts	Title	Type of Events	Starting Date	Ending Date	Place	Partici-pants	Female
National Assembly	Fiscal Transparency - International Experiences and Lessons for Vietnam	Training workshop	7/18/2013	7/18/2013	Quang Ninh	45	21
Ministry of Planning and Investment	Managing Government's expenditure for Investment and development, International experience and Vietnam case	Training	7/14/2013	7/17/2013	Quang Ninh	40	24
National Assembly (In cooperation with UNDP)	State Budget Amendment-comments collection	Workshop	7/11/2013	7/13/2013	Phan Thiet	58	48
National Assembly	Fieldtrip survey Re Budget allocation and implementation Yen Bai	Field visit	7/7/2013	7/9/2013	Yen Bai	7	2
National Assembly	Fieldtrip survey Re Budget allocation and implementation Da Nang	Field visit	7/3/2013	7/5/2013	Da Nang	5	4
National Assembly	Fieldtrip survey Re Budget allocation and implementation Dak Lak and Khanh Hoa	Field visit	7/1/2013	7/5/2013	Dac Lac, Khanh Hoa	8	4
Ho Chi Minh Academy for Political and Administrative Studies	Fiscal Transparency Review	Workshop	6/14/2013	6/14/2013	Hanoi	50	28
Ministry of Finance	Building State Budget Revenue-Projection Model	Workshop	6/14/2013	6/14/2013	Hanoi	30	15
Ministry of Planning and Investment	Fiscal Transparency and Fiscal Impact on the Macro economy	Training	6/11/2013	6/13/2013	Hai Phong	35	17
Academy for Policy and Development, MPI	Fiscal Transparency and Public Investment Assessment	Training	6/10/2013	6/10/2013	Ba Vi	35	18
National Assembly	Fieldtrip survey Re Budget allocation and implementation Hai Duong and Hai Phong	Field visit	6/6/2013	6/8/2013	Hai Duong, Hai Phong	9	3
Ministry of Finance	Training on Implementing Financial Strategy to 2020 (supported by MOF)	Training	6/5/2013	6/5/2013	Thanh Hoa	40	23
National Assembly	Roundtable Discussion: Revising Budget Law, Decentralization and Budget Citizen Guide with CFBA	Roundtable discussion	5/28/2013	5/29/2013	Hanoi	10	5
	Total					482	261

USAID also leveraged resources from World Bank, United Nations Development Program, the International Monetary Fund, and the Center for Development and Integration.

- USAID STAR Plus and UNDP supported a national workshop for law makers in Phan Thiet to review the Draft Budget Law in July 2013 together with representatives from Ministry of Finance and State Audit of Vietnam.
- USAID STAR Plus made a presentation on fiscal transparency at United Nations Development Program training for local elected representatives in Can Tho in August 2013.
- USAID STAR Plus sent international and local experts to participate and make a presentation on fiscal transparency at a training course for the official of the MOF on implementation of financial sector strategies. The training was funded by a multi-donor trust fund managed by the World Bank.
- USAID STAR Plus invited the International Monetary Fund to join our team in conducting the training on fiscal transparency and budget presentation to showcase the difference between the Vietnamese approach and International Monetary Fund approaches to calculating fiscal deficit.
- USAID STAR Plus and the Center for Development and Integration—a local NGO and partner of the Open Budget Initiative that produces the Open Budget Index—made a joint presentation to the National Assembly on the Open Budget Index and how Vietnam can increase its ranking and score.
- USAID STAR Plus staff attended the release of the Public Expenditure and Fiscal Accountability Assessment Report and the release of a fiscal transparency report by the World Bank.

V. FINANCIAL MANAGEMENT

The budget for fiscal transparency work partially offset reductions in the USAID STAR Plus in the final year of the Project, but they were used exclusively to support efforts to promote increased fiscal transparency. The funds were not accounted for separately. Fiscal transparency was the primary focus of technical assistance efforts during the last three months of the USAID STAR Plus Project.

VI. LESSONS LEARNED AND RECOMMENDATIONS

The proposal for additional funds was submitted in November 2012, but the proposal was not formally approved until late April 2013. At that point there were approximately three months left in which to conduct technical assistance programs. If the approval had been granted sooner, it would have been possible to do more.

The Law on the State Budget will be a critical law for Vietnam because it affects 1) how institutions and people are funded; 2) how budgetary resources (accounting for half of public investment and close to 30 percent of GDP) are allocated/spent; and 3) how the different stakeholders, including the public, participate in deciding and overseeing public resource allocation and utilization. The Law is the instrument to implement several groundbreaking provisions of the new Constitution and is expected to go a long way toward improving incentives, the availability of fiscal data, and the role of different players in this process, including that of the NA, the MOF, the MPI, the SAV, local government, and the public.

While there has been significant progress, the unresolved agenda is challenging. Given the role of this Law in shaping the future of Vietnam's key development challenges and the comparative advantage of United States in this area, supporting the development of a good budget law and its implementation should be a priority for technical assistance.